


# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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**DATE:** AUGUST 10, 2016   
**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #11 – Status Report on Rim of the World Recreation and Park District

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**RECOMMENDATION:**

Staff recommends that the Commission note receipt of the Status Report and file.

**BACKGROUND:**

At the July 2010 hearing the Commission completed its service review for the Rim of the World Recreation and Park District (“District”) through adoption of Resolution No. 3095. The Commission identified a number of financial issues which prompted it to question the District’s financial solvency at that time and placed specific conditions for follow-up to be accomplished by staff. The District has satisfied all of the conditions outlined in the Commission’s resolution from the service review, and all of the questions and concerns identified by the Commission have been addressed.

The previous status update from February 2016 included a review of the FY 2014-15 audit along with LAFCO’s fiscal indicators and FY 2015-16 mid-year status. The following is the conclusion from that report:

The FY 2014-15 audit shows an improving financial position of the District, and the FY 2015-16 mid-year report does not reveal any areas of concern. The District has one more status report scheduled: August 2016 (2015-16 year-end and 2016-17 budget). This last update will include LAFCO staff’s update to its five-year financial projections based upon the District’s unaudited year-end figures.

This is the final status report scheduled for the District. The countywide park and recreation service review will commence in FY 2018-19, to include the district.

## **CURRENT UPDATE ANALYSIS:**

This status update reviews the FY 2015-16 unaudited year-end and FY 2016-17 budget to include reporting of its reserves and fund balances, as well as providing a five-year forecast of revenues and expenditures.

### **FY 2015-16 Unaudited Year-End**

The following is a review of the District's financial position from its unaudited year-end. The District's year-end report, which includes a spreadsheet, is provided as Attachment #1 to this report. On the whole, the financial position of the District has been steadily improving since its 2010 service review with reserves increasing, addition of permanent staff, and increased patronage.

The net gain for the year is \$35,842. However, \$50,000 was budgeted for an election to fill a vacant seat on the board (the quoted costs from the County Registrar of Voters). Since no candidates came forward to submit their names for the ballot, the County appointed a director to fill the seat. Thus, these funds were not used. Should the election have taken place and all the funds used, then the net gain may have been a slight net loss, or less may have been allocated to reserves (discussed further below).

The District provides childcare services and this service has historically had issues with patronage and payment of charges. For the year, expenses outpaced revenues again. To stem the losses the board approved the closure of one of three childcare sites for FY 2016-17. Additionally, the District wrote-off roughly \$13,000 in uncollectible fees and has implemented a pre-pay policy for childcare services.

The other non-tax revenues shown come from facility rentals and recreational programs, both of which receive revenues in excess of expenditures.

During the year the District exceeded its budget authority for expenditures. The FY 2015-16 budget established reserve funds for capital improvement projects, and the District paid for the projects from operating expenditures. However, the District did not take action to increase its budget authority to accommodate the payment for the unbudgeted expense. In turn, operating expenditures exceeded budget authority by \$68,369. Even though there were enough revenues to cover the overage, the District should have taken action to increase its budget authority to accommodate the overage.

## **RESERVES:**

As of the end of FY 2015-16, the District had \$297,929 in reserves (an increase of roughly \$185,000). The amounts are shown below. Also, an additional \$327,712 is identified as unassigned fund balance (a decrease of roughly \$149,000). During the year, the District allocated \$176,000 from its unassigned fund balance to increase the Capital Acquisition Reserve in order to purchase property in Crestline for an additional facility.

Looking at the General Operating reserve, the reserve level does not meet the minimum recommended level of 10% of expenditures. However, the District's \$327,712 in unassigned fund balance can be used to satisfy the 10% general reserve level. LAFCO staff recommends that the District also fulfill the minimum recommended level of 10% of expenditures in its General Operating reserve.

	<b>2014-15</b>	<b>2015-16</b>
<u>Reserves</u>		
<i>General Operating</i>	\$ 39,410	\$ 50,729
<i>Capital Replacement</i>	7,200	7,200
<i>Capital Acquisition</i>	24,000	200,000
<i>Maintenance Truck</i>	7,200	15,000
<i>Running Springs Skate Park</i>	14,000	0
<i>New Facility</i>	10,000	0
<i>ATP Grant Expense</i>		25,000
<i>Contingency Carryover</i>	11,319	0
Total Reserves	\$113,129	\$297,929
Unassigned Fund Balance	\$476,670	\$327,712
<b>Total Reserves and Balance</b>	<b>\$589,799</b>	<b>\$625,641</b>

### **FY 2016-17 Budget**

Compared to the FY 2015-16 year-end, the budget for FY 2016-17 includes an increase to revenues of 4.7% and an increase to expenditures of 2.6%. There are no increases to compensation and benefits.

In FY 2015-16 three employees left the District. According to the District, reorganization and hiring cover the job responsibilities that had been handled by the three former employees. For the two maintenance workers who departed (one a supervisor), two new employees have been hired in their place. Neither is a supervisor, but the Recreation Manager has a job description change to include oversight of the Maintenance department as well. For the Childcare Coordinator who departed, the District has moved another childcare employee into that position, but the responsibility associated with that job has been lessened since one childcare site has closed. The overall net effect on payroll is a reduction in costs.

The budget also funds roughly \$136,000 for facility repairs (an increase of \$94,000 from the prior year) and includes a nominal addition (\$10,000) to its fund balance. The budget is included as Attachment #2 to this report.

LAFCO staff is providing a forecast out to 2020-21 in the figure below. If a conservative two percent inflation is applied to all expenditure categories and its fee schedule (the District's primary source of income is a \$22.00 special tax that contains no inflation factor), the annual shortfall would be roughly \$55,500, \$21,000, \$87,000, and \$53,500 for a four-year total of roughly \$217,000. In turn, the annual shortfall would have to be

covered from an increase in carryover or fee revenues, or a decrease in expenditures. However, the chart below does not explicitly reveal a problem. Rather, the District faces a challenge in that its primary revenue source does not have an inflation factor. To date, the District has been able to compensate for the lack of an inflation factor in its special tax through managing its costs so that it can provide an increase in reserves.

The forecast also includes the quoted cost of \$50,000 for future elections. Should the election costs not come to fruition, then the four-year shortfall total would be \$117,000.

Additionally, as previously stated, the District is planning to purchase property in Crestline for an additional facility. As staff understands this acquisition, it would be covered by funds already reserved, shown above as Capital Acquisition. However, it is not known if this would create an additional ongoing maintenance and operations expense without a dedicated revenue source.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Budget	Forecast	Forecast	Forecast	Forecast
<b>EXPENDITURES</b>						
Compensation & Benefits	\$ 525,277	\$ 525,533	\$ 536,044	\$ 546,765	\$ 557,700	\$ 568,854
Election Costs			50,000		50,000	
Service & Supplies	595,212	566,192	577,516	589,066	600,847	612,864
<b>Total</b>	<b>\$ 1,120,489</b>	<b>\$ 1,091,725</b>	<b>\$ 1,163,560</b>	<b>\$ 1,135,831</b>	<b>\$ 1,208,547</b>	<b>\$ 1,181,718</b>
<b>REVENUE</b>						
<b>Carryover Funds</b>						
Special Parcel Tax	\$ 772,211	\$ 780,000	\$ 780,000	\$ 780,000	\$ 780,000	\$ 780,000
<b>Fees &amp; Charges</b>						
Childcare/Activities	114,480	91,875	93,713	95,587	97,498	99,448
Rental	118,913	109,593	111,785	114,021	116,301	118,627
Recreation Programs	138,767	101,000	103,020	105,080	107,182	109,326
Special Events/Other	11,959	19,180	19,564	19,955	20,354	20,761
<b>Total</b>	<b>\$ 1,156,330</b>	<b>\$ 1,101,648</b>	<b>\$ 1,108,081</b>	<b>\$ 1,114,643</b>	<b>\$ 1,121,335</b>	<b>\$ 1,128,162</b>
	\$ 35,841	\$ 9,923	\$ (55,479)	\$ (21,188)	\$ (87,212)	\$ (53,556)

**CONCLUSION:**

Six years ago the Commission reviewed the District and identified a number of financial issues which prompted it to question the District’s managerial and financial solvency at that time. Since then, the District has come a long way. It has satisfied all of the conditions outlined in the Commission’s resolution from the service review, and all of the subsequent questions and concerns identified by the Commission have been addressed. Further, it has hired permanent staff, which includes a dedicated finance manager, to properly run a public agency and has reduced compensation costs by eliminating its pension program. Over the past two years the documents provided by the District identifies a district that is able to carry out its functions.

While the financial and managerial situation has improved from the depths to which it had descended, LAFCO staff continues to remind the District and the Commission that the District's primary source of income is a \$22.00 special tax that contains no inflation factor. Any new facility acquisitions or services by necessity must consider the sustainability of that facility or service, as its maintenance and operation would be funded through new fees or charges as the current special tax is fully utilized by existing operations.

This is the final status report scheduled for the District. The next review would be the countywide park and recreation service review currently scheduled to take place in FY 2018-19.

Attachments:

1. [FY 2015-16 Unaudited Year-End](#)
2. [FY 2016-17 Budget](#)